Rebecca Urban | *April 05, 2008*

A LITTLE over a week ago, few people had heard of Opes Prime Group.

The Melbourne-based stockbroker, with plush digs based down the Paris end of Collins Street, wasn't exactly a major player in the share market.

Run by a Macedonian immigrant with a penchant for fast cars and horse racing, the firm was probably better known to motor racing enthusiasts -- through its sponsorship of V8 Supercar champion Rick Kelly -- than it was to investors. Until last Friday, March 28, that is, when the Australian Securities and Investments Commission released a four-line bombshell.

Titled "ASIC Launches Investigation Into Opes Prime", it revealed that the company had been placed in the hands of an administrator the night before.

Further to that, a special team of investigators would be searching through the scrap heap for evidence of skullduggery.

As the list of victims from Opes Primes' collapse has grown, the company has morphed from "Opes Who?" into a household name.

Already the F-word -- fraud -- has surfaced.

Laurie Emini, the broker's founding chief executive, has been accused of ordering staff to manipulate six trading accounts worth around $200 million so that his favourite clients would not be hit by margin calls in the market downturn. He, along with fellow directors Julian Smith and Anthony Blumberg, have been forced by the Federal Court to surrender their passports.

As well as owing its lenders ANZ Bank and Merrill Lynch more than $1 billion, Opes Prime also has about 1200 unsecured creditors in the clients who had taken out lending agreements with the broker to buy shares in mostly speculative stocks. Those creditors face losing everything that they held through the firm, as ANZ and Merrill Lynch have seized their shares as collateral.

In a huge number of cases the size of the loans is considerably smaller than the seized deposits.

At the top of the pile is prominent Sydney lawyer Chris Murphy. Once a high-rolling gambling associate of the late-Kerry Packer, Murphy had a share portfolio worth more than $200 million with Opes Prime.

Despite his substantial loss, he has since spoken out in support of Emini.

"I would be amazed if Laurie Emini had embezzled money or wrongly used clients' shares to prop up accounts," he told The Australian this week.

However, it has since been claimed that Murphy's account was one of those to have shown up an "irregularity". Murphy and Emini are reportedly business partners in a separate private venture called Sarah Jane Pty Ltd.

One of the more illuminating revelations to emerge from the Opes Prime fall-out is the sheer number of company directors who had leveraged their positions in their own companies by buying shares with borrowed money.

Destra Corporation chief Domenic Carosa, Image Resources boss George Sakalidis, Conquest Mining boss John Terpu and Jumbuck Corporation managing director Paul Choiselat are just a handful of company directors to reveal that they held their shares through Opes Prime. As a result, their paper wealth has been decimated.

But some ordinary folk have been burned too.

Inspired by the bull market run that only recently came to a screeching halt, many clients were referred to Opes Prime by their stockbrokers, who were offered generous trailing commissions in return. Clients were encouraged to take out equity financing arrangements to buy shares, typically in companies in the highly speculative mining and technology sectors.

Unlike traditional margin lenders, who typically only lend money against blue chip or heavily traded stocks, Opes Prime arranged for its clients to borrow to invest in companies outside the S&P/ASX 300 Index. Some of the companies had market capitalisations of less than $200 million.

In return, Opes Prime required clients to hand over control of their entire portfolios, regardless of the degree of leverage.

Tragically, stories have emerged of clients who had opened accounts with Opes Prime just weeks before it collapsed, handing over sizeable share portfolios even though the loans against them were minimal.

Those shares are now in the hands of the two secured creditors ANZ and Merrill Lynch, who are gradually selling them into the market to re-coup their own respective losses of $650 million and $500 million. In contrast, the unsecured creditors have little hope of getting much back. Several shareholders have hired lawyers in a bid to stop the pair offloading their shares, and, not surprisingly, talk of class actions has already begun.

But it's not just Opes Prime clients who have been hit by the collapse.

Reco Financial Group, a shell company resurrected from the failed Knights Insolvency, was in the throes of merging with Opes Prime for a backdoor public listing that would have valued the combined group at $100 million.

Opes Prime was founded in 2003 by Emini and British-born Julian Smith. Ironically, the pair were also responsible for developing the securities lending model used by Tricom Securities, Lance Rosenberg's embattled stockbroking business that has been making headlines in its own right.

Emini, 44, started his career in finance at the ANZ in 1984 and by the early 1990s had moved across to the bank's securities lending division and was soon managing equity finance at ANZ McCaughan Securities. After being retrenched in 1997, he apparently turned to share trading for a living, operating out of his Templestowe home. At the same time he developed a keen interest in gambling, particularly horse racing.

After migrating to Australia in 1993, Smith, 45, joined stockbroker Ord Minnett, running its securities and lending division. Both Emini and Smith have served on the board of the Australian Securities & Lending Association.

Together they built Opes Prime into a stockbroking and securities lending business with an asset management arm and a hedge fund operating out of Singapore. The firm grew to employ more than 70 staff and, at the time of its collapse, it controlled a securities lending book worth in excess of $1 billion.

But it all started unravelling a fortnight ago when the company's Melbourne-based chairman Peter Gillooly quit the board, after apparently receiving some disturbing news about the company's operations.

"I was informed of something that was happening, which was not happening on the basis of the information that was given to the board," he told The Australian.

Soon after, the ANZ -- concerned that all was not well inside the company -- sent in a team of forensic accountants to take a look inside its books. Irregularities were spotted and reported to the board, which then appointed administrators Ferrier Hodgson on the evening of March 27. ANZ soon appointed its own administrator, Deloitte, to protect its interests.

As the news broke, few could have guessed the impact on the share market. The ripple-effect has surprised even the most seasoned market players.

Companies with no direct corporate links with Opes Prime are suffering.

The stockbroker was in charge of a portfolio of stocks that spanned 700 companies, almost half the total listed. Some of those companies, such as biotechnology minnows Solagran and Bioprospect, have since discovered that such large portions of their shares were held by clients of Opes Prime that ANZ could be required to lob substantial shareholder notices, or even announce takeover offers. Bioprospect has applied to the Takeovers Panel to stop ANZ Nominees selling 26 per cent of its stock, while Solagran is seeking legal advice.

Dozens of companies have since request trading halts for their shares over the past week as more and more shareholders reported that they had accounts with Opes Prime. Once trading resumed, many companies share prices fell, both a result of the uncertainty and the difficulty that ANZ and Merrill Lynch have had in offloading some of the more illiquid stock.

As sharemarket punters are learning: It's a lot harder to sell shares in a bear market.

Arguably, the most disruption has been caused by Tricom, which made headlines itself in January when it failed to settle off-market trades related to margin calls.

As a result, the Australian Securities Exchange placed the firm under supervision, while its lenders, interestingly ANZ and Merrill Lynch, forced it to offload part of its $1.5 billion loan book to meet margin calls.

A beneficiary of the exercise was Opes Prime. To boost its liquidity, Tricom placed between $70 million and $100 million worth of stock with the broker in return for a $40 million loan.

However, none of this emerged until the middle of this week.

Days earlier, Tricom had denied being behind the trading of large parcels of shares in around a dozen companies including Hedley Leisure & Gaming Property Fund, Babcock & Brown Communities, Arrow Energy and Just Group. The unusual trades, which were put through at substantial discounts, sent the market spinning.

Clueless as to why their shares were being traded so cheaply, several companies requested trading halts so they could investigate, but not before their share prices plummeted. Rumours that various directors had copped margin calls spread like wildfire.

For more than two days, the market had no idea who or what was behind the trading.

And then Tricom fessed up: After learning that the Opes Prime board had appointed administrators, Tricom tried to rush through $44 million worth of off-market transactions.

However, the entire exercise backfired when the ANZ and Merrill Lynch appointed their own administrator. Tricom recognised that the special crossings were unlikely to be settled and requested that the Australian Stock Exchange cancel the trades.

It has since bought the shares directly from Opes Prime's creditors. However the damage was done.

Not surprisingly, the Opes Prime debacle has thrown up countless questions. How could the collapse of a relatively unknown broking house cause such damage? How did it amass such a sizeable loan book? What was the ANZ bank doing supporting such a venture?

And, why did so many seemingly intelligent people agree to hand over the beneficial ownership of their share portfolios to another party? Do ANZ and Merrill Lynch have the legal right so sell the shares? And is it moral? But, undoubtedly the most concerning questions of all will not be answered in the near term: How much worse will it get, and how many more people will get hurt?